

School Facilities Board

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	17.0	17.0	17.0
Personal Services	953,600	999,100	999,100
Employee Related Expenditures	319,100	344,900	344,900
Professional and Outside Services	136,800	140,000	140,000
Travel - In State	25,500	36,000	36,000
Travel - Out of State	52,000	0	0
Other Operating Expenditures	147,300	156,500	156,500
Equipment	17,800	0	0
OPERATING SUBTOTAL	1,652,100	1,676,500	1,676,500
SPECIAL LINE ITEMS			
Building Renewal Grants	2,667,900	16,667,900	16,667,900
New School Facilities	0	672,000	858,200
New School Facilities Debt Service	169,429,700	174,165,000	170,155,200
AGENCY TOTAL	173,749,700	193,181,400	189,357,800
FUND SOURCES			
General Fund	173,749,700	193,181,400	189,357,800
SUBTOTAL - Appropriated Funds	173,749,700	193,181,400	189,357,800
Other Non-Appropriated Funds	102,904,100	87,461,900	88,206,000
TOTAL - ALL SOURCES	276,653,800	280,643,300	277,563,800

AGENCY DESCRIPTION — The School Facilities Board (SFB) is composed of 9 gubernatorial appointments and the Superintendent of Education. The board administers the New School Facilities Fund, the Building Renewal Grant Fund, and the Emergency Deficiencies Correction Fund to provide capital funding for K-12 school districts.

Operating Budget

The Baseline includes \$1,676,500 and 17 FTE Positions from the General Fund in FY 2015 for the operating budget. These amounts are unchanged from FY 2014.

Building Renewal Grants

The Baseline includes \$16,667,900 from the General Fund in FY 2015 for Building Renewal Grants. This amount is unchanged from FY 2014.

The Building Renewal Grant Fund was created in FY 2009 to provide grant-based funding for building renewal projects. The fund consists of legislative appropriations and is administered by SFB.

SFB distributes monies to school districts to fund “primary” building renewal projects. SFB prioritizes the projects with emphasis given to school districts that have provided routine preventative maintenance on their facility and can provide a match of monies provided by the fund. “Primary” building renewal funding is for projects

required to meet the minimum school facility adequacy guidelines.

The FY 2014 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 3) permanently repealed the Building Renewal formula, which had been suspended since FY 2009, having been replaced with the Building Renewal Grant program.

Pursuant to A.R.S. § 15-2022, SFB is required to transfer excess funds in the New School Facilities (NSF) Fund to the Emergency Deficiencies Correction (EDC) Fund to the extent that the transfer does not affect or disrupt any approved new construction projects. Since SFB expects there to be no excess monies in the NSF Fund, the EDC Fund is estimated to have a \$0 balance by the end of FY 2015. The EDC Fund is used in a similar manner as the Building Renewal Grants program, where districts apply to SFB for funding to correct facilities emergencies that pose health or safety concerns. If there are insufficient monies in the EDC Fund for district requests, A.R.S. § 15-907 allows a district to levy an additional primary property tax to fund the repairs, with the approval of the respective County Board of Supervisors.

New School Facilities

The Baseline includes \$858,200 from the General Fund in FY 2015 for New School Facilities. FY 2015 adjustments would be as follows:

	<u>FY 2015</u>
New School Construction	GF \$186,200

The Baseline includes an increase of \$186,200 from the General Fund in FY 2015 for funding associated with New School Construction. This amount is intended to allow SFB to complete construction in the Thatcher Unified School District (USD). The project will have a total combined cost of \$1,530,200.

Based on updated guidelines for the New School Facilities program, the only eligible project in FY 2014 is for the Thatcher USD. The funding for the Thatcher USD was approved by SFB in April 2011, and would construct 9,720 square feet of additional space, with a capacity of 116 K-6 students. The project is estimated to cost a total of \$1,330,200 along with additional costs of \$200,000 related to site conditions.

The original FY 2014 budget also included funding for a Benson USD K-4 facility. The district, however, did not have sufficient enrollment to qualify for a new school. Benson's share of the FY 2014 funding is now being used for costs related to the Thatcher facility.

Based on enrollment data, SFB projects that one additional elementary school district may qualify for new construction funding by FY 2017. The JLBC long-term estimate splits the project's \$14 million projected cost between FY 2017 and FY 2018.

Background – The New School Facilities Special Line Item provides funding for school districts to build new K-12 school facilities. The board distributes the monies to school districts as work is completed on approved projects. The amounts allocated to each school district are determined by statute. A school district qualifies for new construction funding when the current district-wide square feet per student falls below the statutory minimum. Funding is then provided to the district at a statutorily prescribed dollar amount per square foot. For individual projects, the board may modify the square footage per student or the cost per square foot under certain circumstances.

The dollar amount per square foot is adjusted annually based on a construction market index identified by the Joint Legislative Budget Committee (JLBC). At its December 2013 meeting, JLBC approved a 0% adjustment in the cost per square foot amounts, given negative construction inflation since FY 2008. (*See Table 1 for FY 2014 statutory funding guidelines.*)

Table 1

New School Facilities Statutory Funding Guidelines

<u>Type of School</u>	<u>Square Feet Per Student</u>	<u>Funding Per Square Foot</u> ^{1/2/}
K-6	90	\$136.66
7-8	100	\$144.27
9-12 (<1,800 pupils)	134	\$167.05
9-12 (≥1,800 pupils)	125	\$167.05

^{1/} Increased by 5% for rural school districts.

^{2/} FY 2015 amounts. Adjusted annually for inflation.

In addition to state funding, districts can generate local funding for new school construction projects by holding a Class B bond election (A.R.S. § 15-1021). Class B bonds are designed to supplement, not supplant, funding received from SFB. Space funded with Class B bond proceeds, therefore, is generally not included in the calculation for determining if a school district qualifies for funding from the board. As of the end of FY 2013, there are \$3.9 billion Class B bonds outstanding.

New School Facilities Debt Service

The Baseline includes \$170,155,200 from the General Fund in FY 2015 for New School Facilities Debt Service. FY 2015 adjustments would be as follows:

Prior Lease-Purchase Payment	GF (209,000)
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The Baseline includes a decrease of \$(209,000) from the General Fund in FY 2015 for a decreased lease-purchase payment.

The FY 2015 Baseline includes \$11,187,300 for the entire debt service requirement for the Qualified School Construction Bonds (QSCB) issuance in FY 2015. The lease-purchase agreement associated with the QSCBs requires the state to appropriate the entire debt service amount for the payment, as opposed to deducting the expected federal subsidy from the payment. The state is expected to receive a federal subsidy of \$4,052,300 in FY 2015 related to the lease-purchase payment. Pursuant to A.R.S. § 35-142.01, these funds will be deposited as revenue into the state General Fund, thereby leaving a net debt service obligation of \$7,135,000.

Refinancing Agreement	GF (3,800,800)
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The Baseline includes a decrease of \$(3,800,800) as part of a refinancing agreement made in December 2013. The FY 2014 K-12 Education BRB authorized SFB to enter into a refinancing agreement, provided that the agreement does the following:

- Reduce SFB lease-purchase payments by a combined total of at least \$4,000,000 in FY 2014 and FY 2015.
- Not increase or decrease SFB lease-purchase payments in any other fiscal year by more than \$100,000.

At its October 2013 meeting, the JCCR favorably reviewed a refinancing agreement that would achieve an estimated \$5.2 million of non-recurring savings: \$1.4 million in FY 2014 and \$3.8 million in FY 2015. (See “Other Issues for Legislative Consideration” for additional information.)

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Pursuant to A.R.S. § 35-142.01, any reimbursement received by or allocated to the School Facilities Board under the federal Qualified School Construction Bond program in FY 2015 shall be deposited in or revert to the state General Fund.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

K-12 Capital Bonding

A.R.S. § 15-1021 authorizes school districts to issue voter-approved bonds for long-term capital needs, such as school construction and renovation to be paid for with local property tax revenues. Article IX, Sections 8 and 8.1 of the Arizona Constitution limit non-unified and unified school district bonded indebtedness to no more than 15% or 30% of the district’s assessed valuation, respectively.

However, A.R.S. § 15-1021 sets statutory limits below the constitutional limits for “Class B” bonds (for those issued after December 31, 1999). As permanent law, the FY 2014 K-12 Education BRB increased the limit on school district Class B bonding to 10% and 20% of property values for non-unified and unified districts, respectively. The limits were previously 5% and 10%.

The proceeds from K-12 bonds may only be used for expenditures listed in A.R.S. § 15-491A3&4, which include new construction, building renovations, furniture, equipment, technology and pupil transportation vehicles. In addition, bonds issued for furniture, equipment and technology have a maximum maturity of 5 years.

As of the end of FY 2013, 102 school districts have outstanding voter approved Class B bonds. The total amount of voter-approved Class B bonds outstanding at the end of FY 2013 was approximately \$3.9 billion.

FY 2014 Ex-Appropriation

The Baseline includes a one-time ex-appropriation of \$(1,445,200) from the General Fund in FY 2014 as part of the refinancing agreement completed in December 2013.

As mentioned previously, JCCR favorably reviewed a refinancing agreement that would achieve an estimated \$5.2 million of non-recurring savings: \$1.4 million in FY 2014 and \$3.8 million in FY 2015.

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
Building Renewal Fund (SFA2465/A.R.S. § 15-2031 [repealed])	Non-Appropriated	
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To provide school districts with monies for maintaining the adequacy of existing school facilities. School districts must submit their 3-year Building Renewal plans before they can be awarded any Building Renewal monies. The FY 2014 K-12 Education Budget Reconciliation Bill (Laws 2013, 1 st Special Session, Chapter 3) repealed the Building Renewal Fund.		
Funds Expended	0	0
Year-End Fund Balance	5,000	0
Building Renewal Grant Fund (SFA2392/A.R.S. § 15-2032)	Non-Appropriated	
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To provide grants to school districts for maintaining the adequacy of existing school facilities. To prevent double counting, FY 2013 and FY 2014 expenditures exclude \$2,667,900 and \$16,667,900, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	8,799,000	0
Deficiencies Correction Fund (SFA2455/A.R.S. § 15-2021 [repealed])	Non-Appropriated	
Source of Revenue: Legislative appropriations.		
Purpose of Fund: To provide school districts with monies for correcting existing deficiencies. The fund expired at the end of FY 2006, but there is a year-end balance in FY 2013, which will be transferred to the Emergency Deficiencies Correction Fund.		
Funds Expended	0	0
Year-End Fund Balance	80,000	0

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
Emergency Deficiencies Correction Fund (SFA2484/A.R.S. § 15-2022)		Non-Appropriated
Source of Revenue: Monies transferred from the Deficiencies Correction Fund or New School Facilities Fund.		
Purpose of Fund: To provide school districts monies for facility emergencies.		
Funds Expended	2,028,200	722,400
Year-End Fund Balance	641,700	0
Land Trust Bond Debt Service Fund (SFA5030/Laws 2003, Chapter 264)		Non-Appropriated
Source of Revenue: Monies credited to the fund from the Permanent State School Fund (A.R.S. § 37-521.B1).		
Purpose of Fund: To pay the debt service on \$246,600,000 in State Land Trust Revenue bonds.		
Funds Expended	24,247,700	24,248,600
Year-End Fund Balance	12,519,900	14,254,200
Lease to Own Debt Service Fund (SFA2373/A.R.S. § 15-2004)		Non-Appropriated
Source of Revenue: Appropriated monies and interest earnings from the investment of lease-to-own Certificates of Participation proceeds.		
Purpose of Fund: To pay the debt service on any lease-to-own agreements entered into by SFB to finance the costs of new school construction. To prevent double counting, FY 2013 and FY 2014 expenditures exclude \$169,429,700 and \$174,165,000, respectively, from the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	345,000	317,800
New School Facilities Fund (SFA2460/A.R.S. § 15-2041)		Non-Appropriated
Source of Revenue: Appropriated monies, monies received by the State Land Department from the lease of state public school land, and proceeds from lease-to-own agreements. To prevent double counting, FY 2014 expenditures exclude \$672,000 from the General Fund.		
Purpose of Fund: To provide school districts with monies for constructing new school facilities, and to pay for the following: construction project management services, school building structural assessments, and land acquisition services.		
Funds Expended	18,682,500	5,483,900
Year-End Fund Balance	5,549,800	547,000
School Improvement Revenue Bond Debt Service Fund (SFA5020/A.R.S. § 15-2084)		Non-Appropriated
Source of Revenue: Revenues from a 0.6% increase in the state Transaction Privilege Tax (as approved under Proposition 301 in the 2000 General Election) and monies credited to the fund from the Permanent State School Fund.		
Purpose of Fund: To pay the debt service on \$793,650,000 in Proposition 301 revenue bonds and \$26,350,000 in QZAB revenue bonds.		
Funds Expended	57,945,700	57,007,000
Year-End Fund Balance	26,229,600	36,744,000